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C O N F I D E N T I A L SECTION 01 OF 02 MINSK 000937

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SUBJECT: BELARUS' MOST PROFITABLE STATE-RUN COMPANIES

REF: MINSK 494

Classified By: Acting Deputy Chief of Mission Dereck Hogan for reasons  
1.4 (b) and (d).

¶1. (C) Summary: The GOB published its list of state-owned companies contributing the most revenue to the GOB budget in ¶2005. This list suggests some significant changes in the Belarusian economy, particularly in the fertilizer and oil industries, since the GOB prohibited publication of its list of most profitable state-run companies after 2004. The new GOB list reflects Belarus' withdrawal from a fertilizer joint venture with Russia, significant increases of profits from refining and transporting foreign-produced oil, and a growing market for recycled metals and pharmaceuticals. Ultimately, a comparison of the 2004 list of the top grossing state-run companies and the more recent list of top contributors to 2005 GOB revenue underscores the increasing reliance on energy subsidies from Russia. End summary.

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The "Classified List" of Belarus' Most Profitable Companies  
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¶2. (C) In 2004, the GOB published an open-source list of the country's top grossing state-owned companies. However, the GOB apparently prohibited publication of the corresponding lists for 2005 and 2006. In May, independent economists told Econoff that the GOB had "classified" the 2005 and subsequent lists (reftel). However, in July, Econoff obtained a list of the 36 companies that contributed the largest percentage of 2005 state revenue from a GOB website, ([http://pravo.by/webnpa/text.asp?start=1&RN=C\\_20600674](http://pravo.by/webnpa/text.asp?start=1&RN=C_20600674)). From this list, it is possible to extrapolate the top state-owned grossing companies. (Note: On December 28, President Lukashenko signed a presidential decree stipulating that highly profitable state-owned companies must give a proportionally greater share of their profits to the government. End note.)

¶3. (C) The online list of top contributors to 2005 GOB revenue would suggest that Belarus' most profitable state-owned companies are in rank order: 1) "NAFTAN" oil refinery; 2) "Belaruskaly" potassium-based fertilizer producer; 3) "Gomeltransneft Druzhba," a network of pipelines to transport oil and oil products to western Europe based in the eastern Belarusian city of Gomel; 4) "Belaeronavigatsiya," the air traffic controllers' company; 5) "Belfarmatsiya," the umbrella enterprise for all state-owned drug stores; 6) "Beltsvetmet," a metal-recycling company based in Minsk; 7) "Vitebskvtormet," a metal-recycling company based in the northeastern city of Vitebsk; 8) "Minskaya Farmatsiya," a Minsk-based pharmaceutical company; 9) "Belenergosexproekt," an energy utility company; and 10) "Farmatsiya," a pharmaceutical

company based in the southwestern city of Brest.

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A Closer Look at the Top Three Revenue Generators  
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NAFTAN Oil Refinery  
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¶4. (C) One of the most notable differences between the 2004 list and 2005 list was the jump of the NAFTAN oil refinery from seventh place. The data for 2005 match economic developments. In 2005, Belarus' largest export commodity was oil and refined oil products, despite Belarus' import of 93 percent of its crude from Russia. The state-owned concern Belneftekhim controls Belarus' oil refining, including NAFTAN and 39 other oil-related companies with 116,000 employees, which account for 30 percent of Belarus' industrial output and 35 percent of its exports. The reported success of NAFTAN is substantiated by regime's announcement in late March Belneftekhim would be placed under the personal control and supervision of President Lukashenko.

Belaruskaly  
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¶5. (C) Almost as remarkable as NAFTAN's rise was the potash fertilizer producer Belaruskaly's decline. Assuming the 2004 official list was accurate, Belaruskaly plummeted from first to a distant second place among the top companies for 2005, when Belaruskaly's contribution to state revenue was slightly more than half of that of the NAFTAN oil refinery. Belaruskaly's fall can be attributed to a rift between Russia and Belarus. In April 2005, President Lukashenko pulled

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Belarus out of the International Potassium Company (IPC), a joint venture between Belaruskaly and Russia's Silvinit and Uralkaly, and created its own potash export company, the Belarusian Potassium Company (BPC). BPC was created as a wholly-owned subsidiary of the GOB petroleum concern Belneftekhim, (Note: Russia's Uralkaly subsequently bought a 50% share. End note.) BPC did not make its first sale of Belaruskaly potash until a September 9, 2005 purchase by the Philippines.

¶6. (C) Apparently, Belaruskaly's decline continued into ¶2006. On July 28, independent economist and United Civic Party (UCP) Deputy Yaroslav Romanchuk gave Poloff an unofficial list of 164 state-run companies in order of their contributions to the GOB budget for the first six months of ¶2006. Belaruskaly ranked thirteenth and contributed a mere 0.78 percent of the total GOB business tax revenues. Recent events corroborate Romanchuk's information. Belarusian exports of potash halted this year because of a price dispute with China. Belarus wanted to increase prices from USD 165 to USD 205 per ton, but China sought to reduce prices by USD ¶20. (Note: In June, Belaruskaly, Belarus' state-owned potash fertilizer company in Soligorsk ceased operation of all four its mines for a week because its storage facilities ostensibly reached full capacity.) Belarus' First Deputy Prime Minister Vladimir Semashko's June 1 report to President Lukashenko stated the export of potash fertilizers had fallen by 25 percent during the first four months of 2006. On July 25, Semashko announced Belarus had signed a contract for the supply of potash fertilizers to China. On August 16, following a similar price dispute, Belarus signed a contract to resume potash exports to India.

Gomeltransneft Druzhba  
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¶7. (C) Given the importance of oil refining to the Belarusian economy, the commensurate significance of oil transport and the profitability of Gomeltransneft Druzhba are

not surprising. Between January and October 2005, the Gomel-based pipeline delivered 7.939 million tons to the Mozyr refinery and transited 60.421 million tons, the largest amount of any Belarusian pipeline, across the country. Of that amount, 40.662 million tons went to Adamovo in Poland and 19.758 million tons to Brody in Ukraine. Taken together, all Belarusian pipelines transported 88.231 million tons of oil, three percent more than the previous year. Transit increased 3.4 percent, to 72.34 million tons for that period.

(Note: During the same period, the next largest pipeline, the Novopolotsk-based Druzhba, delivered 7.095 million tons to the Novopolotsk refinery and 11.918 million tons to Mazeikiu and Butinge in Lithuania. End note.)

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Comment  
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18. (C) The GOB considered the list of most profitable state-run companies after 2004 to be "classified." The GOB's efforts to protect this information may relate to the discrepancies between the two lists regarding the relative success of various economic sectors. Besides the obvious bulwarks of the Belarus economy, potash and oil refining and transport, the top ten list was rounded out by pharmaceutical and recycling companies. Such a list may be a sign of an atrophying industrial base and an increasing reliance on energy subsidies from Russia.

Moore